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Rand, George Franklin

Statement of
George F. Rand...

[S.l.]

[1930]

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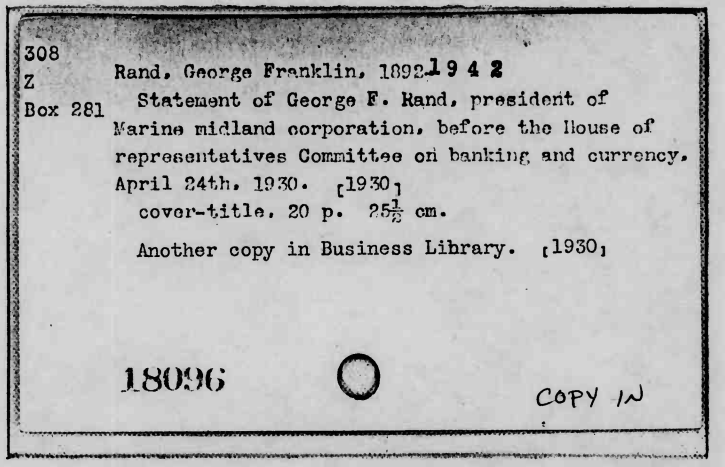

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Rand, George Franklin, 1892-1942
Statement of George F. Rand, president of Marine midland corporation, before the House of representatives Committee on banking and currency, April 24th, 1930. [1930]
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Statement of GEORGE F. RAND, President of Marine Midland Corporation, before the House of Representatives Committee on Banking and Currency, April 24th, 1930.

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June 19, 1930 DA/HSC

Marine Midland Corporation

Introduction

While the term "group banking" is of comparatively recent origin, the need for such a relationship between the larger city banks and the smaller town banks has become increasingly evident to us for years past.

The traditional American banking system functioned for many years, before the era of the automobile, good roads, radio, consolidations in industry, etc., quite successfully. Changing business methods have, however, made it increasingly difficult to transact business in the smaller towns profitably as heretofore. Where formerly there were possibly fifteen or twenty small or moderate sized manufacturing concerns or jobbers in a city of 25,000, there are now perhaps four or five big companies. If these operate as branches of a parent corporation, the bank balance which they carry in that community is probably reduced to petty cash or payroll accounts. If, on the other hand, they are the head offices of large corporations, their credit requirements are probably in excess of the available bank credit in that community, and if they have large bank balances, these are probably carried in the larger metropolitan banks either for the purpose of assuring adequate lines of credit or possibly as a matter of safety. These conditions apply even in cities the size of Niagara Falls, Troy and Rochester, the population of which ranges from 80,000 to 250,000.

We have had small banks come to us to sell or rediscount either secured or unsecured paper which they are unable to handle on account of certain definite limitations, perhaps because of insufficient resources. They have come to us pledging bonds other than government securities, usually when bond prices are low and money is in demand in their local communities. They have even been forced to sell securities at times when they have had to take losses of a substantial character.

On the other hand, occasionally, lacking a sound local market for their funds, in order to keep their money in use, we have seen such banks take unsound credit risks locally or purchase investments in an inexperienced way, being unduly influenced by the prospective yield. From our experience we might cite instances where credit has not been granted to local enterprises because the amounts involved were not within the ability of the local bank to loan. These same local enterprises have found it difficult to obtain credit under the correspondent banking system because the granting of such credit involved an intimate knowledge of the company's management. Under the system of group banking such credit is extended, because through the local unit in the group there exists the necessary intimate knowledge

of the company's affairs and the resources of the entire group are thereby made available to it.

The management of The Marine Trust Company of Buffalo has for years had an interest in a small city bank (The First Trust Company of Tonawanda). Through its affiliation this local bank has been able to keep its funds safely and profitably invested and to supply the credit requirements of its community so adequately that although it is in a city of 15,000 population, no other bank has been started there, every other bank having failed years ago. Because of its relationship with The Marine Trust Company, this bank has experienced few of the difficulties which beset the management of the average small bank operating alone.

Our experience with these conditions and knowledge of these facts prompted us to form the Marine Midland Group.

Background

The Marine Trust Company of Buffalo is the direct successor of The Marine Bank, a New York State corporation, organized in 1850. In 1902 it became The Marine National Bank of Buffalo and absorbed The Buffalo Commercial Bank, which had been organized in 1836, so that it can now trace its corporate existence over a period of 94 years.

Branch banking in Buffalo started in 1916 when Bankers Trust Company of Buffalo (merged into The Marine Trust Company in 1919) organized by George F. Rand, Sr., opened its Cold Spring Branch. After it had absorbed the Central National Bank, it continued to operate the office of that institution as a branch, thus opening the first two branch banks established in the City of Buffalo.

George F. Rand, Sr., who was at that time President of The Marine Trust Company of Buffalo, was the first advocate in that city of branch banking. He inaugurated the definite policy of developing branch banks in all of the more important community centers within the city for the purpose of bringing banking facilities within easy reach of all the retail business and residential centers, thereby encouraging greater use of such facilities, educating the public in the various branches of banking service which were available for their use, and inducing the removal of hoarded savings from chimneys, socks and mattresses to the vaults of a financially responsible bank.

In carrying out this policy, The Marine Trust Company of Buffalo has continued to open branches, with the approval of the State Superintendent of Banks, at various central locations, until it now has some 34 of such branches within the City of Buffalo, operating to the mutual advantage of the public and the trust company.

Concurrently with the development of branch banking within the limits of the City of Buffalo, Mr. Rand, Sr., began laying the foundations of the present Marine Midland group of banks, through extending the influence of The Marine Trust Company outside the City of Buffalo. He had started his banking career in Tonawanda, and was a substantial stockholder in the First Trust Company of Tonawanda at the time he became President of the Marine Trust Company. This Tonawanda bank, therefore, as stated above, was closely affiliated with The Marine Trust Company, and the officers of the latter institution, as directors or advisers, played a very important role in guiding the policies and extending the development of the smaller bank.

It was largely as a result of this experience, referred to above, and of the realization of the mutual advantages to be derived from such relationships that the officers of The Marine Trust Company began systematically to build up a group of banks affiliated with their larger institution through closer co-operation, some common stockholders, and a growing acquaintance and friendship among the officers and directors.

The group so built up comprised, prior to the organization of Marine Midland Corporation in September, 1929, the following banks:

The Marine Trust Company of Buffalo
Union Trust Company of Rochester
Niagara Falls Trust Company
First Trust Company of Tonawanda
State Trust Company of North Tonawanda
Lackawanna National Bank
Niagara County National Bank & Trust Co. (Lockport)
Peoples Trust Company, Binghamton
Workers Trust Company of Johnson City
Union Trust Company of Jamestown
Bank of East Aurora
Bank of Snyder

Marine Midland Corporation

On September 23, 1929, Marine Midland Corporation was incorporated under the Laws of the State of Delaware, with an authorized capital consisting of 10,000,000 shares of the par value of $10 a share, for the express purpose, among other things, of acquiring a controlling interest in the stock of various banks and trust companies in the State of New York. Certified copies of its certificate of incorporation and by-laws are attached hereto, marked Schedule 1 and 2 respectively.

Offers were made to the stockholders of all of the banks listed above, and also to the stockholders of The Manufacturers National Bank of Troy, Cortland Trust Company, Orleans County National Bank and Bank of LaSalle (Niagara Falls) to exchange their stock for stock of the new corporation. The ratio of exchange was in each instance worked out between officers of the new corporation and officers and stockholders of the respective banks, giving due consideration to the earning power, liquidating value and market value of these bank stocks, and taking the stock of Marine Midland Corporation at $60 a share. Concurrently with this offer, underwriting agreements were entered into for the sale for cash of 1,000,000 shares at $60 a share, less commissions to the underwriters.

The formal offer of exchange was made to the stockholders of all these banks on September 24, 1929. They were given until October 7th, 1929, to deposit their stock. On October 17th, 1929, the necessary number of shares having been deposited, the underwritten stock was taken up by the bankers for cash, and 1,025,055 shares of stock were issued in exchange for stock of all of the banks other than The Marine Trust Company of Buffalo. On October 21st, 1929, 2,816,430 shares were issued in exchange for stock of The Marine Trust Company of Buffalo.

On October 25, 1929, an agreement similar to those made with the first sixteen banks and trust companies was made with the stockholders of the Power City Bank of Niagara Falls, and on November 30, 1929, 140,328 shares were issued in exchange for stock of that bank.

On February 28, 1930, an agreement was entered into with the stockholders of Fidelity Trust Company of New York, similar to the agreement previously entered into with the stockholders of the other banks and trust companies for the acquisition of stock of that bank. In this case, however, stockholders of Fidelity Trust Company were offered the option of exchanging their stock either for 1¾ shares of Marine Midland stock, or for 1 share of Marine Midland stock and $40 in cash in exchange for each share of their stock carrying one share of stock of Fitrust Corporation, an affiliated securities company.

This was the only instance in which cash was paid by Marine Midland for stock of its affiliated banks, except a small amount paid for adjustment of fractional shares.

Under this agreement, on March 29, 1930, 274,893 shares of Marine Midland stock and $8,498,360.00 in cash were delivered in exchange for 248,169 shares of the capital stock of the Fidelity Trust Company of New York and the same number of shares of stock of Fitrust Corporation.

Present Bank Holdings of Marine Midland Corporation

Additional stock of all the banks was deposited and accepted for exchange after the Deposit Date, until as of April 9, 1930, Marine Midland Corporation held stock of the various banks, which, with directors qualifying shares retained by the Directors, constituted over 97% of the aggregate number of shares of the eighteen banks and trust companies.

Attached hereto, marked Schedule 5, is a statement showing in detail the number of shares of stock of each bank and trust company authorized and outstanding, the number held by the Directors as qualifying shares, the number of shares exchanged and held by Marine Midland Corporation, the combined percentage, and the number of shares remaining available for exchange held by non-depositing stockholders.

Directors of Marine Midland Corporation

Attached hereto, marked Schedule 3, is a list of the Directors of Marine Midland Corporation as of this date, showing the principal business occupation of each.

Description of Banking Institutions Controlled

Attached hereto, marked Schedule 4, is a statement as of March 31, 1930, of each of the banking institutions controlled by Marine Midland Corporation, showing its name, location, capital, surplus, deposits and total resources, whether it is national or state, and which of the state institutions are not members of the Federal Reserve System.

Corporations Other Than Banks Controlled by Marine Midland Corporation

It is the policy of Marine Midland Corporation to own the stock of banking corporations only. However, in the case of two of the banks acquired, there were affiliated securities corporations controlled by the stockholders, the stock of the securities corporation being transferred with the stock of the bank. Therefore, in acquiring majority interests in the stock of these banks, Marine Midland also acquired a controlling stock interest in these two securities corporations, viz. Security Properties Co., Inc., affiliated with Manufacturers National Bank of Troy, and Fitrust Corporation, affiliated with Fidelity Trust Company of New York.

Method of Acquiring Banks

Generally speaking, the policy of Marine Midland Corporation is to acquire its holdings of bank stocks through the issuance of its own stock in exchange therefor, but this policy will not prevent it from using cash for part or all of the purchase price if that means will be helpful in any given case.

Capital Structure and Stock Distribution

As already stated, the capital structure of Marine Midland Corporation is extremely simple, there being only one class of stock authorized, consisting of 10,000,000 shares of the par value of $10 each.

The extent and method of stock distribution may be considered under two heads. The stock issued in exchange for bank stocks was of course distributed among the stockholders of the various banks who deposited their stock under the several plans and agreements and received Marine Midland stock in exchange therefor when the requisite amount of stock had been so deposited, and the transactions were closed. In addition to this stock, 1,000,000 shares were underwritten and offered to the public at $60 a share. This public offering was made by Stone & Webster and Blodget, Incorporated, White, Weld & Co., Chas. D. Barney & Co., Schoellkopf, Hutton & Pomeroy, Inc., and Marine Union Investors, Inc., and 75,000 shares underwritten without commission by certain individuals were sold to the management at the same price paid by the public. The total number of stockholders of the corporation is now somewhat over 20,000. The complete statement as to the distribution of stock in all Marine Midland cities is as follows:

STATE	PLACE	NO. OF STOCKHOLDERS	TOTAL SHARES
New York	Buffalo	6,505	2,891,844
	New York City	2,667	877,911
	Rochester	1,555	249,067
	Troy	534	102,650
	Niagara Falls	967	231,297
	Binghamton	184	31,788
	Tonawanda	194	115,455
	North Tonawanda	169	84,210
	Lockport	372	62,315
	Johnson City	80	11,457
	Lackawanna	57	1,535
	Jamestown	120	16,653
	East Aurora	83	8,664

STATE	PLACE	NO. OF STOCKHOLDERS	TOTAL SHARES
New York			
	Cortland	126	8,296
	Albion	47	1,864
	Snyder	116	3,458
	Total Marine Midland Cities	13,776	4,698,464
	411 other communities in New York State	2,191	287,778
Total N. Y. State 427		15,967	4,986,242

NOTE—There are many communities tributary to Marine Midland Cities whose figures are not included in Marine Midland Cities totals.

Marine Midland stockholders are distributed through 45 states, Canada, England, Hawaii, and the West Indies.

In many cases where, under the unit system, one individual or a group of two or three controlled the bank and the number of stockholders in the community was comparatively small, now there is a much wider distribution of Marine Midland stock throughout the same community and the percentage of customers who are stockholders has been and is being substantially increased.

Marine Midland Group, Inc.

Marine Midland Corporation is purely a holding corporation, organized under the laws of Delaware and transacting no business in the State of New York. For the purpose of affording the various banks in the group the benefits of centralized supervision, co-operative buying and selling of securities, stabilization of methods of operation, co-operative purchasing and advertising and the other advantages which naturally accrue from group organization, the above corporation was organized under the Laws of New York as a management company.

This company has only a nominal capitalization and all of its stock is owned by the trust companies or officials of the banks comprising the group. It has its head office in Buffalo and a Board of Directors comprising representatives from all of the banks in the group. Under management contracts with each bank, its expenses are pro-rated quarterly among the various banks in proportion to their deposits at the beginning of the quarter. This company has adopted a very carefully worked out program covering the service which it renders and will render to the members of the group, which may be analyzed as follows:

1. Supervision and Examinations

An expert Examiner, who was formerly a Chief Bank Examiner of the New York State Banking Department, has been secured to head this Department. He, with his associates, and with the assistance of auditors drawn from other banks than the one being examined, will conduct frequent examinations of the various member banks, thus insuring that they will be maintained in excellent condition, that their methods will be up to date and standardized according to the best accounting practice, and that any weaknesses will be promptly discovered. The best methods developed in any one bank will be made available for all in the group. This, we conceive to be the most important service rendered available by the group system, and one which will inevitably tend to weed out incompetent officials and doubtful loans, build up the standards of each separate bank, and give to the smallest institution the same high character of supervision otherwise available only to the larger institutions.

2. Advertising and New Business

Through the management company a national publicity campaign is being carried on, which has certain unique features. Each advertisement has reference specifically to one of the communities in which the Marine Midland Group operates and features that city and the particular bank located there. Batten, Barton, Durstine & Osborn have been retained as publicity counsel, and a comprehensive program is being worked out by which all the banks will benefit from the publicity of each and the development of the local community in which each is operating will be consistently advocated.

Representatives of this Department will also be constantly on the alert to obtain new business for the various member banks. This Department will furnish a clearing house where all information regarding business developments which offer opportunity for banking service will be noted and followed up. Through having the combined resources of all the member banks at their disposal, representatives of this Department will be able to offer lines of credit and other banking service commensurate with the needs of the largest corporate enterprises in the country.

3. Bonds and Investments

One of the important divisions of this Management Corporation is that which will analyze the investments of the various banks and assist them in making changes in their portfolios. The highest class of investment service will thus be available for each bank and information possessed by any one will be open to all. Experts have been at work for months analyzing the portfolios of the various banks and recommending changes in the investments tending to strengthen the list and increase

the rate of return. Their advice will always be obtained before any changes are made and they will likewise call the attention of the several banks to opportunities for profitable and safe investments as they arise.

4. Central Credit File

A central credit file is being inaugurated which will contain credit information regarding customers or prospects whose principal offices are located outside the immediate territory served by the group. This will be of great value to any member considering increasing lines to such customers or extending lines to new prospects. In addition, the credit files of each bank will, of course, be at the disposal of all the members.

5. Central Purchasing Bureau

As standardized forms and equipment are introduced throughout the group, economies will be effected through the employment of the services of this department in making purchases in larger quantities and on better terms than otherwise possible.

6. Trust Departments

One of the most important services will be that pertaining to the trust departments of the various institutions. Here especially, the smaller banks are lacking in the experience and facilities which would enable them to develop trust business in their communities. Efficient trust officers will be at the disposal of all the members of the group so that the internal organization of their Trust Departments will be standardized, enlarged and improved, and their external relations with the community correspondingly developed.

7. Miscellaneous

In addition to the services outlined above, this company will be in position to help the member banks in many other ways, as for instance in developing their Travel Departments, their Foreign Departments, their Real Estate & Mortgage Departments and in all the other branches of banking.

One which should perhaps receive special mention is that of Industrial Survey and Financial Advice. The company will supply experts to study the business methods and conditions of customers who are not making good, and to give advice regarding changes in business methods or capital structure, by means of which results advantageous to the banks and customers alike may be obtained.

Geographical Area

The Marine Midland Group is the normal development of affiliated banks throughout a territory closely bound together by common ties of industry, commerce and finance. This development started in the so-called Niagara Frontier, including the cities of Buffalo, Niagara Falls, the Tonawandas, Lockport and Lackawanna, as well as the smaller communities of East Aurora, Albion and Snyder, and the territory immediately adjacent to the Niagara Frontier, extending as far south as Jamestown and as far east as Rochester. All of these communities are united by close trade relations and the territory which they cover may properly be described as a "trade area" in the restricted use of that term. By a normal extension, three banks in the adjacent territory, known as the Southern Tier, were added to the group, in Binghamton, Johnson City and Cortland. Also, in recognition of the fact that the commerce of Western and Central New York normally flows largely along the route of the Erie Canal and the New York Central Railroad, a representative bank in the manufacturing city of Troy was added to the group. Finally, to round out the territory served and pursuant to the plan originally adopted, which recognized the necessity of a New York City connection, because of the very large volume of trade, commerce and finance between all of these communities and that city, the Fidelity Trust Company of New York was acquired by the group. For generations all the so-called "up-state" banks and industries in New York have had close business and financial relations with New York City.

The entire territory served by the Marine Midland Group may therefore properly be regarded as a "trade area." The rural communities in the Southern Tier send their dairy and farm products to New York City. Grain, pig iron, flour and many other commodities originating in Western New York, are shipped to New York City by rail or water transportation.

The State of New York is an economic unit bound together by a community of trade, transportation systems, uniform business customs and the same laws. It is also a financial unit comprising substantially the entire New York Federal Reserve District.

At the present time we do not contemplate the acquisition of any additional banks outside this territory, as we feel that we should first co-ordinate the banks which we have acquired and such additional ones within these limits as we may acquire in the near future, before considering the possibility of extending our investment beyond these lines. As a matter of principle, however, it would appear reasonable that a group of banks controlled by one corporation need not of necessity be confined to the limits of any one state or Federal Reserve District. Certainly, where a recognized trade area overlaps such lines, the group of banks might well be likewise extended.

If the group is to be confined to one trade area, the definition of trade area should not be too limited or narrow, but should be broad enough to include sufficient diversification so that if one locality is going through a business depression, the others will be far enough removed not to be affected by such a purely local condition.

Such a definition of trade area has been repeatedly recognized as applicable to New York State and contiguous territory. The United States Government Census figures and all official reports divide the country into standard sections, one of which is the Middle Atlantic Division, comprising the States of New York, Pennsylvania and New Jersey.

The Federal Reserve District No. 2 comprises all of New York State, Fairfield County in Connecticut and the Northern Section of New Jersey as far as Mercer and Ocean counties.

In the Market Data Handbook of the United States, published by Batten, Barton, Durstine & Osborn in 1929 as the result of an exhaustive field study and statistical analysis covering several years of work, a trading area map of the United States is presented, which includes as a "major area" New York State, five counties in Connecticut, fourteen counties in Northern New Jersey and a portion or all of nine northern counties of Pennsylvania. This so-called "major trade area" has been adopted as the basis for sales promotion program by a number of large corporations, including among others Armstrong Cork Co., Atwater Kent, Johnson & Johnson, Zellerbach, Clicquot and General Electric Company. The last named company in its bulletin "Sales Office Territories," published January 1, 1930, prints a map showing its New York Sales Territory to be exactly that of the "major New York area" described above. International Magazine Company has issued a study of trading areas called "Trading Area System of Sales Control," copyrighted 1929. In this a marketing map of New York State is published, including in addition to New York State a portion of Connecticut, Northern New Jersey and five counties in northern Pennsylvania. The same territory is shown on a map published by the Chicago Tribune Book of Facts issued in 1927, except that the last named includes all of the State of New Jersey, instead of only the northern part.

From all these references it is clear that both logically and by recognized governmental and business authorities the territory served by the Marine Midland Banks is well within a recognized major trade area.

Whether or not any geographical limitation upon the group is wise, depends largely upon each particular case, and until experience has given us more information upon which to base a judgment in this regard, we prefer to remain open minded.

General Comments
Relation to Governmental Officials

Marine Midland voluntarily offered to permit the New York State Superintendent of Banks to examine its business, affairs and records at any time as fully as though it were subject by law to such an examination. Later, the New York Legislature amended the Banking Law so as to extend the jurisdiction of the Banking Department to corporations affiliated with state banks or trust companies, and it is expected that the Governor will approve this bill. In my opinion this is a proper arrangement. We are equally willing to submit to examination by the Comptroller of the Currency, since some of our banks are national banks and others are members of the Federal Reserve System.

Stockholders' Liability for Assessments

Under both Federal and State laws, the stockholders of banks and trust companies are liable to an assessment for the benefit of creditors in an amount equal to the par value of the stock owned by them. Bank holding corporations have sometimes been criticized on the ground that they constitute an evasion of this liability. I feel that the contrary is the case, and that such a corporation, properly organized and conducted, makes the stockholders' liability much more readily enforceable.

Experience has demonstrated that under the ordinary unit banking conditions less than 50% of such liability is in practice actually collected. Contrast this with our own situation. It is almost inconceivable that a condition could arise among our banks where the stockholders' liability could not be enforced 100%. The total authorized capital stock of all our banks is $28,025,000, which is, therefore, the extent of stockholders' liability, if all the banks should fail so badly as to make the maximum assessment necessary. Against this Marine Midland Corporation has over $45,000,000 in cash, outside its investment in bank stocks, and it is our policy to keep at all times an amount in cash or its equivalent equal to our aggregate stockholders' liability on the bank stocks owned by us. It is, however, beyond the bounds of probability that any such situation as the failure of all the banks should arise. If it did, it could only be as the result of such a cataclysmic financial debacle as would render the ordinary individual stockholders' liability actually unenforceable to any extent.

Experience has demonstrated that in nearly all cases it is the smaller banks which get into difficulties requiring resort to assessments against the stockholders. When we remember that the total surplus and undivided profits of our banks combined is $42,134,389.72, as of March 31, 1930, or half again as much as their total authorized capital, and that the Marine Midland Corporation owns substantially all of this surplus and undivided profits in other banks (in addition to its other re-

sources) it is readily seen that payment of an assessment by any one bank in full is assured. Certainly, therefore, the depositors have vastly stronger protection than in cases where the stock of a bank is widely scattered among individual holders of every variety of type, business and financial responsibility.

If a holding company were organized to own only the stock of a single bank, and no other assets, then it might properly be said to constitute an evasion of the stockholders' liability. But where, as in our case, the holding company owns the stock of a large group of banks, located in many different communities, and serving widely varying industries, and has also a substantial worth outside of such bank stocks, there can be no possible conclusion but that the stockholders liability becomes a much more readily enforceable and valuable asset of each separate bank. Moreover, the actual obligation of the holding company to protect every bank in its group is far greater than the legal requirements represented by its stockholders' liability. It would be fatal for it to permit any single bank controlled by it to fail for any cause whatever. Its moral responsibility goes far beyond its legal obligations as a stockholder.

Group Banking the Natural Result of Modern Economic Tendencies

During the past ten years, the methods of conducting business in this country have been revolutionized. As stated by Comptroller Pole in his testimony before this Committee: "The economic movement away from a large number of independent local utility and industrial operating units towards a stronger and more centralized form of operation in the large cities has curtailed the opportunities of the country bank for diversity and extension of business while broadening those opportunities for the large city bank . . . . . The expenses of operating banks have been materially — very materially — increased. The opportunities of the country banks have diminished in that the small town has become less of a factor by reason of the improvement in roads and the quick transportation which takes people to the cities to do their business and their banking frequently instead of doing it in the small town. Heretofore in years gone by a community has been more or less independent, with its locally operated utilities, its light plants, ice plants and wagon factories, etc., all of which have been removed and those things have gone to the cities and now are controlled by large corporations and those opportunities have been removed.

There has been a change in corporate financing within the last ten years. Heretofore large corporations, and small corporations similarly, would borrow seasonably, whereas now they have financed themselves through reorganization of

their capital structures. That has removed the opportunities from the banks and such things as that have made it very difficult for a bank to stay on an even keel. . . . . Banks in small communities have to be satisfied with small local loans and real estate loans, which, frequently, are slow and unsatisfactory, resulting in a greater percentage of loss than in years gone by."

The banking system has not kept pace with all these changes. On the contrary, it tried to continue unchanged the traditional American ideal of the small, independent banker operating in thousands of small communities. The changed business conditions, as well as the agricultural depression, cut off the former sources of profit for such bankers, so that thousands failed, and other thousands have been on the verge of failure.

In the ten years from 1920 to 1929 inclusive, about 750 national banks and 4,900 state banks, mostly small in size, failed. It is a ghastly record. About ten per cent. of the national banks and twenty per cent. of state banks closed their doors. In the current year 1930, the Comptroller of the Currency has testified before this Committee that from January 1 to February 21st, 1930, 155 more banks failed, or at the rate of 1140 a year. These failures have not only caused tremendous losses to the depositors and the stockholders, but they have virtually paralyzed business in whole sections of the country. The remaining banks have been afraid to make loans even well within their capacity, feeling that they must retain sufficient liquid assets to meet a run which might be caused at any time by the suspension of a neighboring institution.

Moreover, the vastly increased banking and financial needs resulting from so many consolidations and mergers rendered the resources of banks which had been large enough ten years ago inadequate to meet these new demands.

As a result of these two tendencies in industrial development, two distinct movements have become manifest in our banking structure, first the stupendous increase in the size and decrease in the number of the metropolitan banks through huge mergers and consolidations, and, second, the rapid development of group banking throughout the country.

Unlike manufacturers or retailers, bankers could not establish branches except to a very limited extent. Branch banking, except within city limits, is, generally speaking, prohibited by the National Bank Act and by the laws of most states. The ownership of stock control of one bank by another is likewise forbidden. Therefore, to accomplish the same results that industry had reached by means of consolidations and branches, group banking developed almost over night, as an entirely new form of banking development.

Group Banking vs. Chain Banking

As generally understood, "group banking" implies the ownership by a holding company managed by bankers of a controlling stock interest in a group of banks or trust companies. It is a banking system whereby a number of corporately independent financial institutions, retaining their own identity, capital, personnel, and management, are co-ordinated through majority stock control, by a supervising holding company, operated by the banking interests of the territory which it serves. The stock of this holding company is widely distributed among a large number of stockholders.

"Chain banking" as the expression is commonly used, refers to the ownership of stock control of a number of banks, directly or indirectly, by one or more individuals who may be bankers, but are more often business men who have acquired or operate the banks as adjuncts of their business interests. Ultimate stock control is usually lodged in one, or at most, in a very few individuals.

Group Banking vs. Branch Banking

We were compelled to carry out our plans by the method of "group banking" because as already intimated, the laws of New York State and the National Bank Act both prohibit branch banking beyond city limits. It is, therefore, somewhat academic for me to try to compare one system with the other, when only one was open to us. However, in view of the suggestion that the National Bank Act may be amended in such a way as to permit at least statewide branch banking, I have given considerable thought to the question as to which form of operation would be preferable in our case.

Obviously certain advantages of branch banking cannot be realized fully by group banking. For instance, more economies may be effected, both in operating costs and in overhead. Administration, also, would be more direct and simple. The corporate set up is less complicated, the resources of the system more closely integrated, and authority more concentrated.

On the other hand, there appear to be certain advantages which group banking possesses over the branch system.

Ernest T. Clough in Barrons for April 14, 1930, in an article on "Group Banking Sweeps the Country," summarizes these advantages as follows:

> "Banking Facilities Broadened.
>
> In many ways, the group banking movement offers advantages to American business, to individuals in the community, and to the depositors and stockholders of the numerous unit banks. Banking operations are there-

by broadened, the ability to handle the credit requirements of large corporate enterprises in the various territories is improved, sounder investment advice is being given, individuals are offered opportunities of trust department and safekeeping facilities never before available, and advantages in the financing of foreign trade and in the obtaining of letters of credit for travel abroad are given the community served such as they are not able to secure in any other way under the present system of banking. At the same time, the local banking personnel is handling the problems of each community, which means that local requirements are fully understood and given sympathetic consideration. Depositors continue to have a feeling of pride in the institution as one which reflects the financial strength of the community, and the ability to maintain this close kinship between the depositor and his bank is unquestionably one of the strongest factors of strength in group banking."

Group Banking is a compromise between the British, Continental and Canadian systems of branch banking, and the traditional unit bank system of the United States. Possibly it is only a transitional stage. But for the present, at least, the retention of local interest and contacts, through independent boards of directors and real local autonomy, seem very real advantages. Local pride and rivalry are stimulated. Co-operation rather than centralization is stressed. In the numerous meetings we have had of the officers and directors of the different banks, a splendid esprit de corps was developed, with much friendly emulation as to the relative merits, efficiency and progress of their respective institutions. It is hard to conceive of such a spirit — at least under present conditions — in a convention of branch managers. However, we are open-minded on the subject, and I am frank to confess that our experience has been too short to justify forming any final judgment as to the respective ultimate advantages of group versus branch banking. Nevertheless, I can and do heartily endorse the statement made by Mr. Wakefield of the First Bank Stock Corporation in his testimony before this Committee, in which he said:

"The group system of banking is sound because it rests on these foundations:

First, Co-operation of resources;

Second, Diversification of resources;

Third, Ownership spread throughout the territory;

Fourth, Creation and Management by Bankers."

Advantages Common to Group and Branch Banking

Through its affiliations with the other Marine Midland banks, The Marine Trust Company in February was able to become the successful bidder for an entire issue

of $50,000,000 of United States Government Certificates. This fact attracted widespread notice, and much favorable newspaper comment. It was stated to be the first time that such a large government issue had been taken up by a bank outside of New York City. This is one illustration of the many ways in which bigger things can be done under the group or branch system.

The Orleans County Trust Company is one of our smallest banks, being located at Albion, N. Y., in the midst of a farming community. Most of the farms are already mortgaged, and the farmers are having a hard time to make them pay. Through its affiliation with the Marine Midland group, this little trust company has been able to secure the services of an expert on farm loans, who is now studying the situation there and advising the farmers how they may so improve their methods, or re-finance their operations, as to turn failure into prosperity, and gradually liquidate their loans. This is an illustration of a very different way in which advantages may result from a co-ordinated banking system.

Another real gain from an organization viewpoint is the greatly enlarged opportunity afforded to every officer and employee in the whole group. Here we can learn much from the experience of Canadian bankers, where they are able to try a man out in a small branch and promote him or shift him around until he has broadened his experience and developed his abilities and become a seasoned, well-trained banker. The chance for advancement is multiplied many times. Good men are bound to be discovered and given promotion in their own or some other bank. A messenger in one of the country banks may some day become President of The Marine Trust Company, or of the Marine Midland Corporation.

Relation to Other Independent Banks

The Marine Midland banks number among their correspondents hundreds of independent unit banks. It is the policy of Marine Midland to work with these banks and serve their requirements as conscientiously and ably as it does its own member banks as far as it lies within its power so to do.

Whatever power and influence the joining of this group of banks into the Marine Midland group has given will never be used to force or co-erce a smaller independent bank either into joining the Marine Midland Group or into taking action detrimental to its own best interests.

Rather Marine Midland will use its power and influence to first protect its depositors' moneys, build up and assist local enterprise, better insofar as it can local banking conditions, develop the communities which it serves to the end that by serving others efficiently and well it also best serves itself. Local independent banks will find Marine Midland helpful, aggressive for business but only on a fair and profitable basis. Several times at the request of the New York State banking de-

partment the Marine Trust Company has aided in saving smaller banks from failure each time at no gain to itself. A bank that is not a profitable bank is a poor bank. The Marine Midland Corporation desires its member banks to be profitable ones. We desire our employees and officers to receive a living wage. Too often the wages and salaries paid bank employees are a temptation to dishonesty.

Conclusion

Industrial and economic progress in the past twenty years has improved the standards of living and contributed to the happiness and welfare of the greater bulk of the people. Most of this progress has resulted from developments in transportation and communication which have broken down barriers and prejudices and changed methods of transacting business both in manufacturing and distribution.

In this progress, up to the present time, banking organization has lagged behind. Today, however, group banking is the logical means by which the two basic functions of a bank, the protection of its depositors' money and the sound constructive extension of credit, can be most effectively exercised.

Marine Midland Corporation, as an exponent of modern banking structure, definitely benefits the public, 350,000 depositors and over 20,000 stockholders. These advantages may be summarized as follows:

Advantages to the Depositors

1. *Greater Protection for Their Deposits* in a member bank through the availability of greater resources in money and experienced management as applied both to operations and the handling of the bank's investments.

2. *Greater Mobility of Credit.* (Example — The manufacturer in a small community who needs more credit than has been available to him through an isolated unit bank may now through a group bank in his own home town make arrangements for his requirements with greater facility.)

Group banking will benefit many communities by furnishing the assurance that credit is extended on the basis of sound business judgment rather than prejudice. (Example — Many times the President of a small bank because of prejudice will refuse to meet the legitimate needs of his customers or will often use the bank for his own personal ends.)

Certain small town banks with little paper to re-discount have been unable to take care of the legitimate matters of their individual borrowers. To such banks, members of Marine Midland, we are sending funds.

3. *More Complete Financial Service.* The isolated country bank, while professing to have trust and investment departments has been unable to afford competent officers along such lines. Now through any Marine Midland member bank there is available to the public such service through the part time of men who are experienced in their respective fields.

4. *More Efficient Service.* Example — Through the extensive contacts of the Marine Midland Group member banks are able to secure better and quicker credit information for their customers.

In some instances readjustment of operating practice will improve the service at tellers windows and necessitate less waiting in line on the part of the public.

5. *Financial Advice.* Manufacturers, jobbers and merchants have a right to expect advice from their bank on many problems of a semi-banking or business nature. If the officers in any particular Marine Midland bank cannot from their own experience contribute constructive advice, such counsel is more directly available to the inquiring business man by virtue of the fact that the bank is a member of the group.

6. *Development of Communities and Areas Served by the Group.* The Marine Midland Corporation is not a bank and can profit only as the communities in the area which it serves themselves grow and prosper. With this in mind a national advertising campaign pointing out the advantages of Marine Midland cities and New York State from a manufacturing and sales distribution standpoint is being run in national publications.

We are also preparing a marketing survey of New York State designed to point out the opportunities in New York State.

None of these things which in the last analysis should tend to build up these communities could be attempted or carried out by the average small or moderate size unit bank.

Advantages to the Stockholders

1. *Safety of Investment.* The value of stock in an isolated unit bank is subject to depreciation, which might come from a business depression affecting that particular community or even from a single credit loss. An investment in stock, such as that of Marine Midland Corporation owning as it does seventeen banks has the advantage of safety through diversification of risk.

A change in management necessitated perhaps through the death of the chief executive of a small country bank might be detrimental to the value of stock in such a single institution. On the other hand under group banking continuity of good management in any single bank is more readily assured.

2. *Opportunity for Normal Increase in Value.* Economies in operation and greater efficiency in management go hand in hand with group banking. Furthermore group banking furnishes opportunities for increased earnings through the ability to extend trust and investment facilities to a greater number of people.

3. *Greater Marketability.* Stock in the Marine Midland Corporation is listed and affords the investor an opportunity to liquidate at any time if he needs to do so. Often times the holder of stock in a small bank finds it almost impossible to dispose of his holdings without sacrifice.

The sole basis of profit so far as Marine Midland Corporation is concerned, is the growth and development of the banks in Marine Midland cities. In each of these there is aggressive normal competition. Our banks' opportunity therefore lies chiefly in better serving the public.

In advocating group banking I do not deprecate the accomplishments and ability of the banker in a small city or town. Changes in business methods, however, are making it more difficult for him to operate a safe and profitable bank playing a lone hand. As outlined above, group banking retains all that is good in the unit and contributes much in resources and management which is of benefit to the public and through them of benefit to the bank in the small town.

We look forward to the future with confidence. We welcome co-operation with both State and Governmental authorities and will furnish them every opportunity to examine our affairs. Our directors and officers have the confidence of the communities in which we do business, and we are equally proud of the character of our customers. At the same time we are not unmindful of the great responsibility resting upon us, especially in being one of the pioneers in this new field of American banking, and we are determined to do our utmost to serve faithfully and efficiently our 20,000 stockholders, our 350,000 customers, and every community, both the smallest and the largest, in which a Marine Midland bank is operating.

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